

BOARD MINUTES 2007

Agenda Item II.

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

MEETING OF THE BOARD OF DIRECTORS

February 21, 2007

MINUTES

Present:

Chairman Kay Ivey
Ms. Debbie Dahl for Dr. Thomas Corts
Dr. Greg Fitch
Mr. Willie Huff
Mr. Mike Martin for Lt. Gov. Folsom
Dr. Harold McGee
Mr. Ed Sherling

Others Present:

Ms. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Ms. Pam Stevenson, PACT Coordinator
Ms. Jana Ingels, Communications Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. Bud Pellecchia, Callan Associates
Mr. Marty Lee, Jackson Thornton & Company
Mr. Bob Crompton, Actuarial Resources
Mr. Ben Patterson, Fine, Geddie and Associates
Mr. George Brown, George Brown & Associates
Ms. April Simmons, INVESCO . .

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the Sutton Conference Room, 7th Floor of the RSA Union Building, Montgomery, Alabama on February 21, 2007.

Agenda Item I.

The meeting was called to order by Chairman Kay Ivey at 10:00 a.m. Roll was taken and a quorum was present.

Agenda Item II.

The minutes of the November 29, 2006 board meeting were presented. A motion was made by Mr. Sherling, seconded by Mr. Huff for approval as written. The motion unanimously carried.

Agenda Item III. (A.)

Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Ms. Emfinger gave the Board an overview of current work and updated information on enrollment. She stated that 1,273 applications had been received with 353 of those online. She also informed the board that a Securities Lending agreement had been completed with Bank of New York with lending to begin the first of March.

Agenda Item III. (B.)

Chairman Ivey called on Bud Pellecchia for the quarterly investment report, which is attached for reference. Mr. Pellecchia gave an overview of the markets, stating that there had been strong equity growth. He then reviewed asset allocation noting that while the equity allocation was on target, the fixed income was slightly under target. Mr. Huff asked Mr. Pellecchia if our target allocation to fixed income should be reduced since we have much stronger performance from equities. Mr. Pellecchia stated that he thought the current allocation was appropriate, given the volatility of the markets.

For the quarter, the fund returned 6.19% versus the target of 6.24%, primarily due to underperformance from the large cap and international equity managers. For the year, the return was 13.93% versus the index of 14.82%. The market value of trust fund assets at the end of the quarter was \$751,268,514 with \$11,773,483 transferred from the trust fund to meet tuition benefit obligations. Mr. Pellecchia also noted that during the quarter, two new managers were funded; CS McKee was funded with a transfer of funds from Bear Stearns and Acadian from a transfer from New Star Asset Management.

Mr. Pellecchia then reviewed manager performance. InTech, the large cap growth equity manager slightly underperformed the index while Rhumblin, the indexed equity manager, performed at the index. Bear Stearns slightly underperformed and it was noted that \$47 million had been transferred from their account to fund CS McKee. Earnest Partners, the small cap value equity manager trailed the index while Turner Partners, the small cap growth equity manager outperformed the index. New Star, the international equity manager, had poor performance for the quarter and it was noted that \$52 million was transferred from their account to fund Acadian. Mr. Pellecchia informed the board that New Star had sent a letter informing us that there had been a policy violation concerning the purchase of a security and then a subsequent letter explaining how this had been rectified. Dr.

Fitch asked if we should continue to retain them given the performance and violation of policy. Mr. Pellecchia stated that New Star's two year performance with the fund does not cover a full cycle, and recommended that we continue to monitor. He also noted that New Star had stellar performance when they were hired. Sterne Agee had good performance. Western Asset Management, the core plus fixed income manager also had good performance. Mr. Pellecchia discussed Western's use of TBA (To Be Announced) Mortgage Back Securities and stated that these are forward settling securities backed with a cash position which they define as duration less than a year. Mr. Pellecchia stated that the policy allowed for this type of investment as long as the securities were not used to leverage the portfolio.

Mr. Huff asked Mr. Pellecchia to provide the specific fixed income strategy for the managers in the quarterly report. Mr. Pellecchia agreed to do so.

Agenda Item III. (C.)

Chairman Ivey called on Marty Lee for the 2006 Financial Audit Report. Mr. Lee reviewed the short version of the financial statements that were included in the board package. He then called the board's attention to a long version of the financial statements as well as an audit committee letter and a management letter. The long version of the financial statements includes additional information in regards to Governmental Auditing Standards. Mr. Lee explained the report stating that a reportable condition had been found concerning the program's international money manager cash account which had not been reconciled. He further explained that this had been discussed with staff and controls were in place to address the issue. He reviewed the management letter, which addressed opportunities for strengthening internal controls and operating efficiency. The letter included recommendations that the PACT Accountant prepare certain end of year adjustments and become more proactive in addressing the proper accounting and financial reporting for investment transactions so that all transactions are recorded in a timely manner and properly classified. The audit committee letter discussed the conduct of the audit and there were no significant issues that needed to be brought to the board's attention. The reports were received as information and are attached for reference.

Agenda Item III. (D.)

Chairman Ivey called on Bob Crompton for the 2006 Actuarial Report. Mr. Crompton informed the board that the actuarial deficit had decreased and the program was 92.7% funded at the end of the fiscal year. Mr. Crompton explained the reduction in the actuarial deficit which resulted primarily from favorable investment return and lower than projected tuition increases. He then went through several scenarios related to changes in assumptions that had positive and negative impacts on the deficit. He discussed the changes in assumptions for this

year's valuation related to investment return and bias to students attending the higher cost institutions. The report was received as information and is attached for reference.

Agenda Item IV. (A.)

Chairman Ivey discussed with the board a resolution approving several firms to be used in transition management. Callan had provided information on the firms, as well as a recommendation that these firms be utilized as needed. A motion was made by Dr. McGee, seconded by Mr. Huff for approval. The motion was unanimously approved and the resolution is attached for reference.

Agenda Item V. (A.)

Chairman Ivey called the board's attention to information that was provided on contract pricing in preparation for the May board meeting. She reminded the Board that historical pricing information would be provided in the next board package, as well as pricing information for the new one year contract.

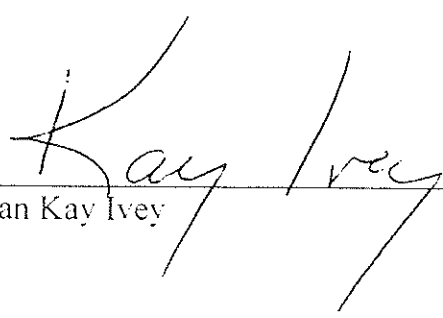
Agenda Item V. (B.)

Chairman Ivey called on Anthony Leigh to discuss 2007 marketing. Mr. Leigh informed the board that a Request for Proposal was being prepared to retain a firm to develop a marketing plan for the 2007 PACT enrollment period. Chairman Ivey asked the Board if they would like to be involved in the selection of the firm or evaluation of the proposals. The consensus was that this should be handled by staff.

Agenda Item V. (D.)

Chairman Ivey informed the Board that Joe Carrieri with Western Asset Management was unable to attend due to problems at the Atlanta airport.

There being no further business, the meeting was adjourned at 11:50.


Chairman Kay Ivey

Agenda Item IV. (A.)

Adopted Resolution Considered by the
PACT Board of Trustees at its meeting on February 21, 2007

**Topic: Approval of Consultant's Recommendations of various entities
for Transition Management Services**

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, when trust fund assets are moved from one investment manager to another, a series of transactions take place that are an expense to the fund; and it is important that the fund remain fully invested and transaction costs are kept to a minimum; and,

WHEREAS, the Investment Consultant to the Board, Mr. Bud Pellecchia has investigated and recommended Bank of New York, Bear Stearns, Abel Noser, Mellon, State Street, and Credit Suisse as suitable and capable providers for transition management services, and

WHEREAS, when a transition of assets occurs, two or more approved transition managers will price the transition and the manager providing the lowest cost to PACT shall be selected to administer the transition in accord with a letter agreement negotiated by treasury staff on a case by case basis;

THEREFORE, BE IT RESOLVED, that the Board accepts the recommendation of the Consultant and hereby approves each of the foregoing entities to provide transition management services as is above described and in accord with letter agreements on a case by case basis as approved by Treasury staff.

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM**

MEETING OF THE BOARD OF DIRECTORS

May 23, 2007

MINUTES

Present:

Chairman Kay Ivey
Mr. Ricky Jones
Ms. Debbie Dahl for Acting Postsecondary Chancellor, Joan Davis
Dr. Greg Fitch
Mr. Willie Huff
Mr. Mike Martin for Lt. Gov. Folsom
Dr. Harold McGee
Mr. Ed Sherling
Mr. Russell Buffkin

Others Present:

Ms. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Ms. Malathi Ganesh, PACT Accountant
Mr. Mike Manasco, Treasury Legal Counsel
Mr. Bud Pellecchia, Callan Associates
Ms. Annoesjka West, Callan Associates
Mr. Bob Crompton, Actuarial Resources
Mr. Kevin Haynes, Merrill Lynch
Mr. Bob Runkle, Merrill Lynch

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the Conference Room, 3rd Floor of the RSA Union Building, Montgomery, Alabama on May 23, 2007.

Agenda Item I.

The meeting was called to order by Chairman Kay Ivey at 10:45 a.m. Roll was taken and a quorum was present.

Agenda Item II.

The minutes of the February 21, 2007 board meeting were presented. A motion was made by Mr. Sherling, seconded by Mr. Huff for approval as written. The motion unanimously carried.

Agenda Item III. (A.)

Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Ms. Emfinger informed the board that a Request for Proposal would be issued for records administration due to contract expiration.

Agenda Item III. (B.)

Chairman Ivey called on Bud Pellecchia for the quarterly investment report, which is attached for reference. Mr. Pellecchia gave an overview of the markets, stating that there had been slowing of the economy which had impacted returns. There was strong equity performance, particularly in the international component. Performance for the fund for the quarter ending March was 1.64% versus the benchmark of 1.96%. Mr. Pellecchia provided updated information on returns as of April 30 which showed improved performance for all managers. The information is attached for reference.

Mr. Pellecchia discussed asset allocation, stating that we were close to the target with a total fund market value of \$757,714,004. Although there was a gain of approximately \$12.3 million, \$5.8 million was transferred to be used for benefit payments.

Mr. Pellecchia then discussed manager performance. InTech, the large cap growth manager had a return for the quarter of 1.62% versus the benchmark of 1.19%. Mr. Pellecchia stated that as growth comes back into favor, their performance should improve. Rhumblin, the indexed equity manager, returned .66% versus the benchmark of .64%. Bear Stearns, the large cap value manager had a return of negative 3.42% versus the benchmark of 1.24%. Mr. Pellecchia stated that their portfolio was heavy in the largest cap stocks and because of their continued underperformance, they would be monitored. CS McKee, large cap value manager, was funded with assets transferred from Bear Stearns. Their performance was .86% versus the benchmark of 1.24%. Earnest Partners, the small cap value manager had a negative return of 1.16% against the benchmark of 1.46%. Because of their continued underperformance, they will also be monitored. Turner Partners, the small cap growth manager had good performance of 4.03% against the benchmark of 2.48%. Acadian Asset Management, international manager, had a return of 4.01% versus the benchmark of 4.08%. Acadian was recently funded with assets from New Star. New Star, international manager, had a return of 4.94% versus the benchmark of 4.08%.

Sterne Agee, the domestic fixed income manager, had a return of 1.19% against the benchmark of 1.5%. Mr. Pellecchia explained that some of the underperformance came as a result of a correction in their previous quarterly return. The correction was the result of a pricing difference. Western Asset Management, the core plus fixed income manager had a return of 1.65% verses the benchmark of 1.5%.

Agenda Item III. B. (1.)

Mr. Pellecchia discussed cash equitization stating that this would allow Bank of New York to invest the cash in futures contracts that match the asset allocation. This would allow for a better return on cash and prevent a drag on investment performance." Because cash management is discussed in the Investment Policy, a motion was not required.

Agenda Item IV. (A.)

Mr. Pellecchia called the board's attention to a review of the Investment Policy and recommended Investment Policy revisions. He discussed the changes which stated that managers should not expect additional cash for investing and that income would also not be available due to the need for cash for tuition benefit payments. Additional language was also added to require managers to submit requests for exceptions in writing. Also, additional language was added to the fixed income manager guidelines to specify a maximum exposure of 30% to TBA's (to be announced). A motion was made by Mr. Jones to approve the resolution adopting these changes. The motion was seconded by Mr. Sherling with unanimous approval.

Agenda Item IV. (B.)

Chairman Ivey presented the recommended changes to the PACT Rules and Disclosure Statement. She called the board's attention to information provided summarizing the changes and the marked copy of the changes within each document. An explanation was provided concerning these changes in relationship to the selling of the new one-year contracts. A motion was made by Mr. Jones and seconded by Mr. Sherling for adoption of the resolution accepting the changes for publication of the 2007 PACT Rules and Disclosure Statement. The motion was unanimously approved. The resolution and information is attached for reference.

Agenda Item IV. (C.)

Chairman Ivey called on Bob Crompton, the PACT Actuary to discuss 2007 PACT Contract Pricing. Mr. Crompton discussed with the board the assumptions for pricing and the recommendation concerning changes. He informed the board that he recommended Proposal B which would increase the bias assumption based on recent trends. This assumption is related to the number of participants who attend the higher priced colleges/universities. The board discussed these

assumptions for pricing the four-year contract and a motion was made by Mr. Jones, seconded by Mr. Sherling to accept Proposal B. The motion was passed unanimously. Then after discussion of the assumptions for one-year contracts, a motion was made by Dr. McGee, seconded by Mr. Huff to accept Proposal B. This motion was also passed unanimously. Following discussion, a motion was made by Mr. Jones to approve the resolution for 2007 Contract Pricing using Proposal B for both contracts. Mr. Sherling seconded with unanimous approval.

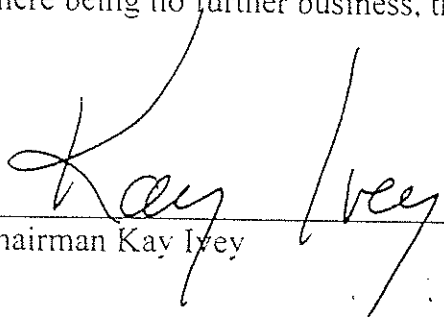
Agenda Item V. (A.)

Chairman Ivey called on Mr. Leigh to give a report on the 2007 marketing. Mr. Leigh informed the board that Blue Olive Consulting had been hired to assist with developing a comprehensive marketing plan. Blue Olive was selected after review of proposals received and interviews with two of the respondents. The Treasurer and staff met with Blue Olive yesterday and spent most of the day discussing various aspects of the plan. The final plan will be submitted to the board at the August board meeting. Chairman Ivey then commended Mr. Leigh for his diligent work with the legislature in various college savings programs issues.

Agenda Item V. (B.)

Chairman Ivey called on Ms. Emfinger for an update on the College Savings Programs Strategic Plan. Ms. Emfinger briefly discussed the plan, stating that progress was being made on the goals that were developed for the programs.

There being no further business, the meeting was adjourned.



Chairman Kay Ivey

AGENDA ITEM IV. (A.)

Adopted Resolution by the
PACT Board of Trustees at its meeting on May 23, 2007

Topic: Adoption of Changes to the August 2006 Investment Policy

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, in subsection (3) therein, the Board has power to invest as it deems appropriate any funds in the PACT Trust Fund in any instrument, obligation, security, or property that constitutes legal investments for public funds in the state, including legal investments for the State Treasurer and the Alabama Trust Fund; and,

WHEREAS, in Subsection (11) therein, the Board has power to establish other policies, procedures, and criteria necessary to implement and administer the provisions of the law; and,

WHEREAS, the Board Investment Consultant, Callan Associates, has reviewed and revised the 2006 Investment Policy to indicate recommended changes to the Board; and,

WHEREAS, the Board has considered the recommended changes and comments from Treasury staff and General Counsel;

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the attached Investment Policy with revisions indicated therein to the Investment Policy to be entitled the May 2007 Investment Policy and Guidelines Statement.

AGENDA ITEM IV. B. (5.)

Adopted Resolution by the
PACT Board of Trustees at its meeting on May 23, 2007

Topic: Revisions to the PACT Rules and Disclosure Statement for 2007

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 in recognition that the advancement of higher education in the State of Alabama is a proper governmental function and purpose of the State of Alabama;

WHEREAS, the Plan consists of two programs, one of which is the Prepaid Affordable College Tuition Program;

WHEREAS, Section 16-33C-2.1 of the Act provides that the State Treasurer of the State of Alabama (the "Treasurer") shall administer the PACT Program in accordance with the provisions of the Act and the rules, regulations, and guidelines ("Program Rules") established by the Board of Trustees (the "Board");

WHEREAS, the Board has determined that it is appropriate to provide, amend and supplement the Disclosure Statement and the Rules for 2006; and,

WHEREAS, the Board has reviewed the revised documents as attached;

THEREFORE, BE IT RESOLVED, that the Board approves the proposed 2007 Disclosure Statement that includes the 2007 PACT Rules.

AGENDA ITEM IV. C. (6.)

Adopted Resolution by the
PACT Board of Trustees at its meeting on May 23, 2007

Topic: 2007 PACT Contract Pricing

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975; and

WHEREAS, Section 16-33C-6 (e) provides in pertinent part that the board shall obtain appropriate actuarial assistance; and

WHEREAS, the Board of Trustees has with the assistance of the PACT Actuary determined that the following assumptions are reasonable for the pricing of the 2007 PACT Contracts:

THEREFORE, BE IT RESOLVED, that the Board, with the advices of the PACT Actuary, adopts the assumptions specified below for each of the categories that when applied and calculated will result in 2007 PACT Contract Pricing:

Four Year University Contract

Tuition and Qualified Fee Inflation – 7.5%

Tuition Bias – 10% for 4 Year Schools, 1% for 2 Year Schools

Benefit Usage – 8 semesters @ 16 hours

Two Year College Participation – 15% for the first 2 years

Record Keeping Charges – Lump Sum - \$100; \$3 per monthly payment

Investment Return – 7.38% for 4 years; 8% thereafter

Installment Interest Rate – 8.25%

Benefit Payout Timing – September 1 and January 1

Cancellations – None

One Year Contract

Tuition and Qualified Fee Inflation – 7.5%

Tuition Bias – 10% for the 4 Year Schools

Benefit Usage – 2 semesters @ 16 hours

Record Keeping Charges – Lump Sum - \$100; \$3 per monthly payment

Investment Return – 7.38% for 4 years; 8% thereafter

Installment Interest Rate – 8.25%

Benefit Payout Timing – September 1 and January 1

Cancellations – None

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM

MEETING OF THE BOARD OF DIRECTORS

August 22, 2007

10:00 a.m.

MINUTES

Present:

Chairman Kay Ivey
Mr. Ricky Jones
Mr. Bradley Byrne
Dr. Greg Fitch
Mr. Willie Huff
Mr. Mike Martin for Lt. Gov. Folsom
Dr. Harold McGee
Mr. Ed Lewis
Mr. Russell Buffkin
Mr. Tom Broughton

Others Present:

Mr. Anthony Leigh, Deputy Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. Bob Crompton, Actuarial Resources
Mr. Bud Pellecchia, Callan Associates
Ms. Annoesjka West, Callan Associates
Ms. April Simmons, INVESCO
Mr. Bob Runkle, Merrill Lynch
Mr. Kevin Haynes, Merrill Lynch
Mr. Phil Rawls, Associated Press
Mr. Dave White, Birmingham News
Mrs. Jennifer Culotta, Blue Olive Consulting
Mr. Joe Carieri, Western Asset Management
Mr. Stephen Fulton, Western Asset management

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the Archives Room of the Alabama State Capitol, Montgomery, Alabama on August 22, 2007.

Agenda Item I.

The meeting was called to order by Chairman Kay Ivey at 10:05 a.m. Roll was taken and all board members were present.

Agenda Item II.

The minutes of the May 23, 2007 board meeting were presented. A motion was made by Mr. Jones, seconded by Mr. Huff for approval as written. The motion unanimously carried.

Agenda Item III. (A.)

Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Mrs. Emfinger explained the letter samples provided to the board, noting that these were large mailings over the past several months.

Agenda Item III. (B.)

Chairman Ivey called on Bud Pellecchia for the quarterly investment report, which is attached for reference. Mr. Pellecchia informed the board that this would be his last meeting since he would be leaving Callan for an opportunity to manage a portfolio at a bank in New York. He also stated that Annoesjka West and Millie Viqueira would be the team from Callan servicing the PACT account.

Mr. Pellecchia gave an overview of the markets and stated that all sectors were positive, with large cap leading the way. He stated that growth topped value for the first time in six quarters and that domestic fixed income was a difficult place to be. International equity was the highest performing category.

Asset allocation was discussed with assets being close to their target. Individual managers were then discussed. INTECH, the large cap growth equity manager returned 4.42% vs the benchmark of 6.86%. Rhumblin, the indexed equity manager, had a return of 6.25% vs the benchmark of 6.28%. Bear Stearns, large cap value equity manager returned 5.91% vs the benchmark of 4.93%; their return for the past year was 20.31% vs the benchmark of 21.86% and since inception, a return of 12.19% vs the benchmark of 15.93%. CS McKee, large cap value equity manager, had good performance with a 7.68% return against an index return of 4.93%. Earnest Partners, small cap value equity manager, had a return of 5.14% vs the index of 2.3%; however, for the year, their return was 9.94% vs the index of 16.05% and since inception, 14.49% vs the index of 15.02%. Turner Investment Partners, the small cap growth equity manager, had a return of 8% vs the index of 6.69%. Acadian Asset Management, the international equity manager returned 9.31% against a benchmark of 6.4%. New Star, also an international equity manager had a return of 8.37% against the index of 6.4%. The core domestic fixed income manager, Sterne Agee, had a return of negative .25% with an index of negative .52% and the core plus domestic fixed income manager, Western

Assets. returned a negative .89% against the benchmark of .52%. The following managers were listed as underperforming requiring further review: For monitoring, INTECH and Western Asset, and for review and possible replacement, Bear Stearns and Earnest Partners. Mr. Pellecchia recommended the board take no action until the end of the year after performance review.

Agenda Item IV. (A.)

Chairman Ivey then called on the PACT Actuary, Bob Crompton, to discuss the 2007 trust fund valuation assumptions. Mr. Crompton reviewed information provided and discussed each assumption. The board discussed tuition/fee increases and agreed to keep the current assumption of 7.25%, based on historical increases. In addition, the bias to higher cost institutions was explained and discussed. Following the discussion, a motion was made by Mr. Jones, seconded by Mr. Huff to approve the resolution with the adopted assumptions for 2007. The resolution is attached for reference.

Agenda Item V. (A.)

Chairman Ivey introduced Jennifer Culotta from Blue Olive Consulting, the marketing firm assisting PACT for the 2007 enrollment. Mrs. Culotta gave an overview of the marketing plan, including a discussion of the target market which is females age 25 to 49, and males and females age 50 and over. She then discussed the advertising plan, along with a display of the new PACT logo. She explained that a new tag line, "Prepay A Child's Tuition" would be used as well as visuals of a "hand" which is also used in the logo. She stated that the goals of the marketing plan were to increase contract sales by 20%, create awareness of the new one-year contract, and track the marketing efforts for future planning.

Agenda Item IV. (B.)

Chairman Ivey then called the board's attention to information for consideration for approval of the 2007 qualified fees. Attorney Mike Manasco was called on to give the board a synopsis of the history of the payment of qualified fees. Mr. Manasco explained that up until 2004, mandatory fees were addressed in the MasterPACT and defined with exclusions. In 2004, the MasterPACT was deleted and fees were addressed in the Disclosure Statement. In the Disclosure Statement, fees were defined as those approved by the board. Mr. Manasco informed the board that, based on the statutes, the board did have the authority to enter into contracts with purchasers and was empowered to define the terms and conditions of the contracts. The board then discussed the fees presented for consideration. After discussion of the definition of the "General University Fee" presented for consideration, Mr. Jones made a motion to approve the Technology Fee and Building Maintenance Fee since these were approved in the past and to reject the General University Fee for payment by PACT, and asked staff provide an analysis

of the payment of qualified fees to present to the board before approval of fees in 2008. The motion was seconded by Mr. Lewis and subsequently approved.

Agenda Item V. (B.)

Chairman Ivey introduced Mr. Joe Carieri and Mr. Stephen Fulton from Western Asset Management. Mr. Fulton provided information which is attached for reference. Mr. Fulton then discussed the market and performance. Chairman Ivey asked for an explanation of the TBA (To Be Announced Mortgage Backed Securities) used in Western's portfolio. Mr. Fulton explained the securities and that it allowed a greater incremental return by allowing the use of cash where they did not take possession of the securities. He further stated that these were not leveraged and this was monitored daily. He stated that they were backed by cash and cash equivalents which are defined as investment grade with a duration of one year or less. Chairman Ivey asked Mr. Carieri and Mr. Fulton to make certain that the cash position could be explained to the auditors.

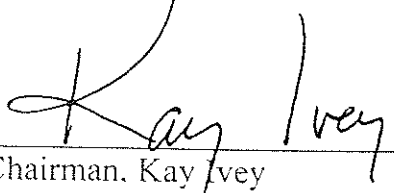
Agenda Item V. (C.)

Chairman Ivey provided a copy of a resolution to be sent to Mr. Ed Sherling, recognizing his service to the board.

Agenda Item VI. (B.)

Board members were given updated information for their Board Manuals.

There being no further business, the meeting was adjourned.


Chairman, Kay Ivey

AGENDA ITEM. (IV A.)

Approved Resolution by the
PACT Board of Trustees at its meeting on August 22, 2007
Topic: Assumptions for 2007 PACT Trust Fund Valuation

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

Whereas, as a part of oversight the Board of Trustees is responsible for approval of the actuarial assumptions used in the annual fiscal year end valuation of the trust fund; and,

Whereas, Robert B. Crompton, Actuarial Resources Corporation, the actuarial consultant, has provided his recommendations, assumptions and advices to the Board, and the Board had substantial discussion and consideration thereof:

Therefore, **Be It Resolved**, that the Board adopts the following assumptions to be used in the September 30, 2007 trust fund valuation:

1. Tuition/Fee Inflation: 7.25%
2. Investment Return: 8.07% through 2011/2012; 8.5% thereafter.
3. Bias Toward Higher Cost Institutions: Four-Year: 11% and Two-Year: 3%
4. Benefit Usage: Total Hours Utilized: 128
5. Two-Year College Participation: 10% for all years
6. Semester Split: 45% Fall; 45% Spring; 10% Summer
7. Payout Months: November 1 -Fall; March 1 -Spring; August 1 -Summer
8. Death/Disability 0
9. Contract Cancellations:

| (Year 0 = year of purchase) | Lump Sum | 5-Year | Extended |
|-----------------------------|----------|--------|----------|
| Year 0 | .5% | 5 % | 6 % |
| Year 1 | .5% | 2 % | 5 % |
| Year 2 | .5% | 1 % | 4 % |
| Year 3 | .5% | 1 % | 4 % |
| Year 4 | .5% | 1 % | 3 % |
| Year 5 and later | .5% | 1 % | 2 % |

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM**

CALLED MEETING OF THE BOARD OF DIRECTORS

August 30, 2007

11:00 a.m.

MINUTES

Present:

Chairman Kay Ivey
Mr. Ricky Jones
Ms. Debbie Dahl for Mr. Bradley Byrne
Dr. Greg Fitch
Mr. Mike Martin for Lt. Gov. Folsom
Mr. Ed Lewis

Others Present:

Mr. Anthony Leigh, Deputy Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel

Pursuant to written and public notice, a called meeting of the Board of Directors of the PACT Program was held in Room S100 of the Alabama State Capitol, Montgomery, Alabama on August 30, 2007.

Agenda Item I.

The meeting was called to order by Chairman Kay Ivey at 11:05 a.m. Roll was taken and a quorum was present.

Agenda Item II.

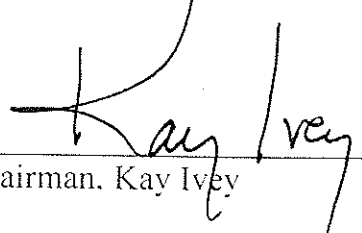
Chairman Ivey expressed her appreciation to the board members for coming for a special meeting to reconsider a qualified fee that had not been approved at the August 22 meeting. Chairman Ivey explained that when staff had thoroughly discussed the action taken at the previous meeting, it was the consensus that the General University Fee proposed by Alabama State University had not been explained well enough in light of other qualified fees that had been approved. Chairman Ivey offered a resolution for consideration, approving this fee, which is attached for reference.

Board members questioned the reason for reconsideration. Chairman Ivey explained that qualified fees were a very difficult issue and that the board had

always struggled with a fair and consistent way to pay these fees. She explained that through the history of the program, the definition had evolved from "mandatory fees" to "qualified fees" and that exclusions were listed as they occurred and were considered by the board. Mr. Martin asked if at any time the board had not approved a fee. Ms. Emfinger explained that when the board went to "qualified fees" and defined them as "board approved", they had specifically voted not to include certain fees such as student activity fees, health fees, and had approved fees by category. It was also questioned whether or not the board had considered paying a "flat rate" for fees, without distinguishing which were qualified. Chairman Ivey pointed out the request in the resolution for staff to do a study of qualified fees and bring recommendations such as that to the board for consideration. Mr. Jones questioned whether or not fees were considered in the pricing of contracts and Ms. Emfinger explained that they were considered at the same rate of increase as tuition.

After discussion, a motion was made by Mr. Jones and seconded by Mr. Lewis to adopt the resolution approving the General University Fee at Alabama State University. With Dr. Fitch abstaining, the motion was approved.

There being no further business, the meeting was adjourned.


Chairman, Kay Ivey

AGENDA ITEM II. A.

Adopted Resolution by the
PACT Board of Trustees at its called meeting on August, 30, 2007

Topic: Approval of 2007-2008 Qualified Fees

WHEREAS, the Legislature has created the Wallace-Folsom College Savings Investment Plan (the "Plan") pursuant to Title 16, Chapter 33C of the *Code of Alabama*, 1975 (the "Act"); and,

WHEREAS, the Board of Trustees ("Board") is created and charged with the oversight of the PACT Trust Fund by Section 16-33C-4, with powers enumerated in Section 16-33C-5(1)-(12); and,

WHEREAS, The PACT Program is established whereby purchasers enter into PACT contracts for the future payment of tuition and mandatory fees at eligible educational institutions as provided in Section 16-33C-6 (a) *Code of Alabama*, 1975; and,

WHEREAS, "Qualified Fees" are defined in the Disclosure Statement as "those fees approved by the Board which are required as a condition of enrollment for all students attending the Postsecondary Institution in which the Designated Beneficiary is enrolled;" and,

WHEREAS, Effective Fall 2007, Alabama State University added a General University Fee, which the Board declined to approve at the regular meeting Board on August 22, 2007; and,

WHEREAS, the Board has reconsidered this matter and hereby approves the proposed General University Fee.

Therefore Be It Resolved, the revised schedule of Qualified Fees for Alabama State University as published on the Treasury website shall be amended to include The General University Fee in substantially the form presented to the Board and attached hereto for the 2007-2008 academic year.

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM

MEETING OF THE BOARD OF DIRECTORS

November 28, 2007

10:00 a.m.

MINUTES

Present:

Chairman Kay Ivey
Mr. Ricky Jones
Dr. Greg Fitch
Mr. Willie Huff
Mr. Chip Hill for Lt. Gov. Folsom
Mr. Tom Broughton

Absent:

Mr. Bradley Byrne
Mr. Ed Lewis
Mr. Russell Buffkin
Dr. Harold McGee

Others Present:

Ms. Daria Story, Assistant Treasurer
Mr. Anthony Leigh, Deputy Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Ms. Pam Stevenson, PACT Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Ms. Annoesjka West, Callan Associates
Mr. Jim Shanley, Bank of New York
Mr. John Fox, Bank of New York
Mr. Brian Coffey, New Star Investment Management

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd Floor Conference Room of the RSA Union Building, Montgomery, Alabama, on November 28, 2007.

Agenda Item I.

The meeting was called to order by Chairman Kay Ivey at 10:05 a.m. Roll was taken and a quorum was present.

Agenda Item II.

The minutes of the August 22, 2007 board meeting were presented. A motion was made by Mr. Jones, seconded by Mr. Huff, for approval as written. The motion unanimously carried. The minutes of the August 30, 2007 called board meeting were presented. A motion was made by Mr. Jones, seconded by Mr. Broughton, for approval as written. The motion unanimously carried.

Agenda Item III (A.)

Chairman Ivey called on Brenda Emfinger for the program report, which is attached for reference. Mrs. Emfinger informed the board that 38 one-year contracts and 281 four-year contracts had been received to date. She also called the board's attention to the sample "gift pack" information which is sent to all new purchasers.

Agenda Item III (B.)

Chairman Ivey called on Annoesjka West for the quarterly investment report, which is attached for reference. Ms. West began with a discussion of recent legal issues concerning Callan and stated that these were being addressed. She informed the board that the Securities and Exchange Commission had completed their examination and provided Callan Associates with a closing letter. The closing letter stated that the examination of Callan has been concluded with the only issue being the inadequate disclosure of the terms of the agreements of the sale of their brokerage unit, Alpha Management to the Bank of New York; she further stated that more detailed disclosure of the terms of the agreement of this sale had been added to Callan's Form ADV Part II in September of 2005. The SEC issued a cease and desist order against Callan as a result of this inadequate disclosure.

In addition, Callan has been served with a complaint by Alfred T. Beane, Jr., a participant in a defined benefit program sponsored by Federal Mogul Corporation, a former Callan client. Callan has retained counsel to assist in developing a legal response.

She then informed the board that Callan would be conducting an asset liability study to be presented at the February meeting.

Mr. Huff then stated that he had read an article in the Wall Street Journal about the amount of money being invested internationally by large funds and questioned whether or not this would have a negative impact on our portfolio. Chairman Ivey asked Ms. West to provide a memo with Callan's comments on the article. He then stated that he thought we should be more heavily invested in international equities. Ms. West explained that this would be addressed in the asset liability study.

Ms. West then gave an overview of the markets stating that although it had been a volatile quarter, returns were positive. She reviewed asset allocation, stating that there was a slight under allocation to domestic fixed income. The return for the quarter was 2.04% with total assets of \$792,740,354. The return for the fiscal year was 15.48%. She then moved to manager performance. InTech, the large cap growth equity manager returned 3.6% vs the index of 4.2%. Rhumblin, the indexed equity manager had a return of 2.09% vs the index of 2.03%. Bear Stearns, the large cap value equity manager had a return of negative 1.53% vs the benchmark of negative .24%. Based on their continuing underperformance, Ms. West recommended terminating the contract with Bear Stearns, and placing the assets with C.S. McKee. C.S. McKee, a large cap value equity manager returned a negative .54% vs the index of negative .24%. Earnest Partners, a small cap value equity manager had a return of negative 1.87% vs the index of negative 6.26% while Turner Partners, a small cap growth equity manager had a return of 2.79% vs an index of .02%. Acadian, an international equity manager had a return of 2.32% vs an index of 2.18%. Sterne Agee, domestic fixed income, had a return of 4.5% vs the index of 2.84% and Western, the core plus fixed income manager, had a return of 2.5% vs the index of 2.84%.

After a discussion of concern over performance and asset allocation, Mr. Jones made a motion to accept Callan's recommendation to terminate Bear Stearns and place the assets with C.S. McKee. Chairman Ivey reminded the board that C.S. McKee had been hired in case Bear Stearns' performance did not improve. Mr. Broughton seconded the motion with unanimous approval. Ms. West stated that issues related to assets and asset allocation could be addressed following the asset liability study.

Agenda Item IV. (A.)

Chairman Ivey called on Ms. Emfinger to discuss the resolution concerning the proposals for records administration. Ms. Emfinger informed the board that two proposals were received; both proposals were from companies who had provided the service. She further stated that evaluation of the pricing structure for each did show HDI solutions with the lower price for Option A and that if they considered Option B, additional staff would be needed, along with increased cost for mailing and printing. Ms. Emfinger further explained that the resolution called for a SAS 70 audit and explained the significance of this. After discussion, Mr. Broughton made a motion to adopt the resolution approving HDI Solutions as the provider under Option A. Mr. Jones seconded the motion with unanimous approval. The resolution is attached for reference.

Agenda Item V.(A.)

Chairman Ivey called on Mr. Shanley and Mr. Fox, representatives of Bank of New York, for a discussion of securities lending. Mr. Fox provided useful information to the board and estimated a gross income from the lending for the upcoming year of approximately \$210,000. The current total income is approximately \$86,000. He further stated that lending tends to be cyclical and that the current climate was good for lending. Mr. Shanley then discussed the BNY/Mellon merger with the board, stating that this would result in improved service and capabilities.

Agenda Item V.(B.)

Chairman Ivey called on Mr. Coffey, representing New Star, for a presentation. The information provided is attached for reference.

There being no further business, the meeting was adjourned at 12:15 p.m.

